

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

WESTERN MASSACHUSETTS ELECTRIC COMPANY

DOCKET NO. D.T.E. 97-120

ELECTRIC RESTRUCTURING PLAN

TESTIMONY OF
MICHAEL G. MORRIS
ON BEHALF OF
WESTERN MASSACHUSETTS ELECTRIC COMPANY

SEPTEMBER 4, 1998

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1 Q. Please state your name, position, and business address.

2 A. My name is Michael G. Morris. I am Chairman, Chief Executive Officer and President
3 of Northeast Utilities ("NU") and its principal subsidiaries, including Western
4 Massachusetts Electric Company ("WMECO" or the "Company"). My business address
5 is 107 Selden Street, Berlin, Connecticut.

6

7 Q. Please summarize your professional experience and education.

8 A. Before joining NU in August 1997, I was president and chief executive officer for
9 Consumers Energy, the principal subsidiary of CMS Energy, and president of CMS
10 Marketing, Services and Trading. I also was an officer and executive vice president of
11 natural gas, marketing, rates, regulatory affairs and wholesale power transactions for
12 Consumers Energy. Consumers Energy is Michigan's largest natural gas and electric
13 utility and serves 6 million of the state's 9.5 million residents. Before joining
14 Consumers Energy in 1988, I served as president of Colorado Interstate Gas Company
15 and as executive vice president of marketing, transportation and gas supply for ANR

1 Pipeline Company. I also formed and served as president of ANR Gathering Company,
2 now known as Coastal Gas Marketing.

3
4 I graduated from Eastern Michigan University with both a bachelor and a masters
5 degree in science. In 1995, I received the University's Distinguished Alumnus Award.
6 I received a law degree, *cum laude*, from the Detroit College of Law, and am a member
7 of the Michigan Bar Association.

8
9 Q. What is the purpose of your additional testimony?

10 A. The purpose of my testimony is to describe the process that ultimately led to the
11 decision not to bring Millstone 1 back on line as an operating nuclear unit. The decision
12 was a difficult one because the recent economic analyses showed some economic
13 benefits to customers from restarting the unit and continuing to operate it until the end
14 of its license life. However, those economic benefits were marginal at best, and at
15 worst, subject to significant uncertainties. After weighing all of the factors, the
16 Company decided that the public interest, as well as the interest of customers and
17 shareholders, was best served by retiring the plant now. That decision is reflected in
18 the Company's Revised Restructuring Plan filed herewith and described by WMECO's
19 other witnesses.

20
21 Q. Please describe the recent economic analysis concerning Millstone 1 that you have
22 referred to.

23 The Connecticut Light and Power Company ("CL&P"), an affiliate of WMECO, filed updated

1 continued unit operation ("CUO") studies for Millstone 1 and 2 with the Connecticut
2 Department of Public Utility Control on July 17, 1998. Those studies were submitted
3 in response to a data request as part of WMECO's restructuring proceeding. The update
4 showed savings to NU customers of \$19 million over Millstone 1's remaining license
5 life, which ends in 2010.

6
7 At the time of the recent filing by CL&P, the Company announced that, based on those
8 results, it had decided not to restart that unit, and that it would begin retirement and
9 decommissioning activities for the unit.

10
11 In contrast, the Millstone 2 CUO study concluded that the continued operation of that
12 unit would provide an economic benefit estimated to be \$433 million to NU customers
13 through the end of that unit's license life in 2015. The Company therefore decided to
14 continue its Millstone 2 restart activities.

15
16 Q. Why did the Company decide to close Millstone 1 permanently, when the results of the
17 CUO study indicate that the unit might produce an economic benefit to customers if it
18 were returned to service?

19 A. There were several reasons that the Company found compelling. First, the marginally
20 positive economic benefit of \$19 million indicated in the CUO study was neither
21 substantial nor assured. Minor changes in the variables used in the CUO study could
22 reverse these benefits. Second, new or heightened industry standards create relatively
23 greater challenges for plants of Millstone 1's vintage. Although these standards are

1 faced by all nuclear plants in the United States, the costs of implementing unanticipated
2 changes in standards at Millstone 1 could erode the modest economic benefits shown in
3 the CUO study. Third, competition is coming. Millstone 1 would have had to operate
4 in a competitive generation market after it returned to service. It will likely be more
5 costly to continue to operate and more difficult to maintain cash flows deemed
6 sufficient to assure safe operation for a unit with a thin margin between costs and
7 revenues. Fourth, while WMECO has offered to auction its nuclear plants by 2004,
8 WMECO believes that the sale of an operating Millstone 1 would have produced little
9 added mitigation value, and that any attempt to restart the unit in order to enhance its
10 sales price would only have resulted in added costs without increasing sale net
11 proceeds. Finally, while the foregoing reasons are a sufficient basis for retiring the
12 unit, bringing the unit back to service would continue to burden WMECO's financial
13 and other resources.

14
15 Q. Please explain the results of the CUO analysis for Millstone 1.

16 A. As Mr. Wiater's testimony describes, the CUO study concluded that Millstone 1 would
17 provide about \$19 million of economic benefit to NU customers over its remaining
18 license life. To put the \$19 million in its proper context, the total net present value of
19 the revenue requirements for Millstone 1 between the projected July 1, 1999 restart and
20 the expiration of the operating license in 2010 is about \$2 billion. As a percentage of
21 total revenue requirements, the economic benefit developed in this analysis represents
22 less than one percent. Although positive, the study results are in no way compelling.
23 Changes in the variables assumed in the study, such as the price of fuel or the market

1 price of electricity in New England, or the unit's assumed capacity factor of 79.7%,
2 could materially reduce the modest economic benefit the study currently produces. For
3 example, the Company performed sensitivity analyses reflecting increased operation
4 and maintenance costs of 10 percent and 20 percent. Those sensitivity analyses yield
5 economic penalties from continued operation of \$61 million and \$141 million
6 respectively. Although WMECO believes the O & M projections used in the study are
7 reasonable, there are many factors beyond its control, such as changing nuclear industry
8 standards and changes due to industry restructuring, that could increase O & M costs
9 beyond the levels reflected in the study and render Millstone 1 uneconomic.

10

11 Q. Please explain your comment regarding changing industry standards that might impact
12 Millstone 1.

13 A. The nuclear industry and its regulators have long strived to assure that nuclear plants
14 are operated to a very high standard, without any compromise of their safe operation.
15 We are all continually learning from new experience and knowledge, and changes in
16 operating rules and standards that reflect our changing knowledge are both necessary
17 and appropriate. While we believe the Millstone 1 CUO analysis properly estimated the
18 costs to operate the plant safely, there is a substantial risk that the actual cost of
19 assuring safe operation could exceed those contemplated in the study. If they did, the
20 Company would have no choice but to pay those costs. I note that we will not
21 compromise the safe operation of our nuclear plants by imposing rigid spending limits.
22 The degree of uncertainty surrounding the issue of changing standards makes the risk of
23 cost increases unacceptably high. This is particularly true for a plant of Millstone 1's

1 vintage.

2

3 Please explain how operating Millstone 1 in a competitive market could affect the unit's
4 economics.

5 A. In a competitive generation market, nuclear plants will no longer recover their costs on
6 the basis of full cost of service ratemaking. Instead, they will have to recover their
7 costs from the revenues they derive from selling their output. For units like Millstone
8 1, the revenue margin above costs will be relatively thin, and that margin would get
9 even thinner if unscheduled outages or lower capacity factors occur, putting pressure on
10 cash flow. Federal regulations require that nuclear plants have sufficient financial
11 strength to operate safely. If they cannot recover their costs through rates they may
12 need to provide proof of financial sufficiency through other, more costly means such as
13 capital support arrangements with the parent company or other sources of cash. Such
14 costs could reduce further the marginal level of economic benefits that are forecast for
15 Millstone 1.

16

17 Q. How does the decision to auction WMECO's nuclear plants affect the decision to retire
18 Millstone 1?

19 A. As part of its Revised Plan, WMECO has proposed to auction its nuclear plants by
20 2004. Based upon our current expectations concerning the market for nuclear power
21 plants, we do not believe that the potential proceeds from the sale of Millstone 1 would
22 significantly offset WMECO's stranded costs. Two ownership interests in nuclear

1 plants have recently sold in the northeast. The units involved, Three Mile Island Unit 1
2 and Seabrook, are both operating very well, and in both cases the sellers received very
3 little for their interests. Any value of the sale of Millstone 1 is expected to be derived
4 from its site value, not from the fact that it is operating. Further, under the Act, costs
5 that enhance a generating plant's value prior to auction may be recoverable. Thus, for
6 Millstone 1, such enhancements could result in added costs (which would be avoided if
7 the plant is retired now) that would need to be recovered from the proceeds received
8 from the sale.

9
10 How did the cost of restarting Millstone 1 affect WMECO financially?

11 A. In addition to the previous reasons to retire the unit, the effort to restart Millstone 1 was
12 a strain on WMECO financially. WMECO is not seeking replacement power as part of
13 its Revised Plan, resulting in a reduction in earnings of approximately \$600,000 per
14 month. The unit was not predicted to restart until at least mid-1999. In addition, it is
15 unclear whether WMECO would be permitted to recover the significant restart costs for
16 Millstone 1 that exceeded levels that would be deemed more normal. Thus, even after
17 restart, WMECO's earnings would continue to suffer. As the Department knows,
18 WMECO is making the transition required for restructuring and competition, which is
19 being implemented now in this proceeding. The financial strains associated with
20 simultaneously restarting Millstone 1 could only have detracted from WMECO's ability
21 to meet these challenges.

22
23 Q. Does this conclude your testimony?

1 A. Yes, it does.